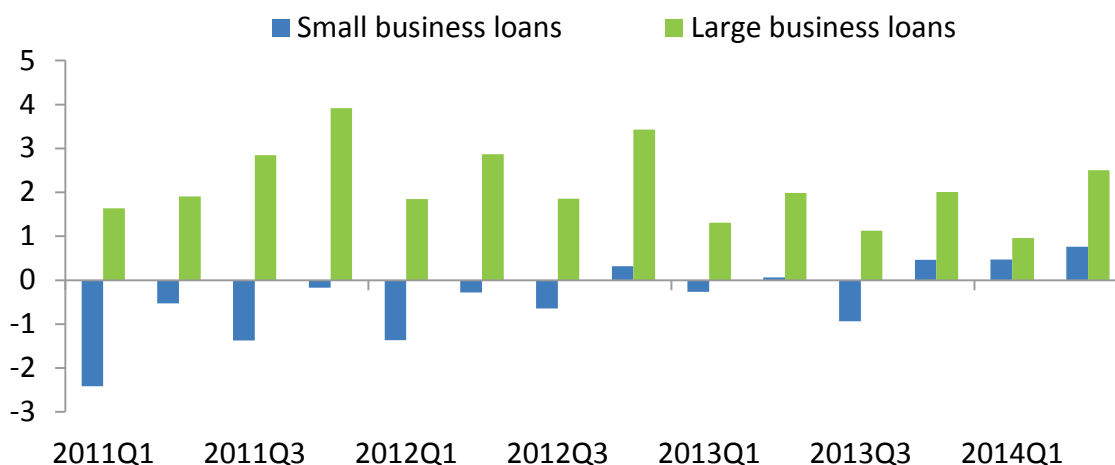


Small Business Lending: First Quarter 2014

Improving Trends: Small Business Loans in Positive Territory

By Victoria Williams, Economist

Figure 1. Percent Change in Small and Large Business Lending Shows Smalls Slower to Recover But Now in Positive Territory



Source: Federal Deposit Insurance Corporation 2014.

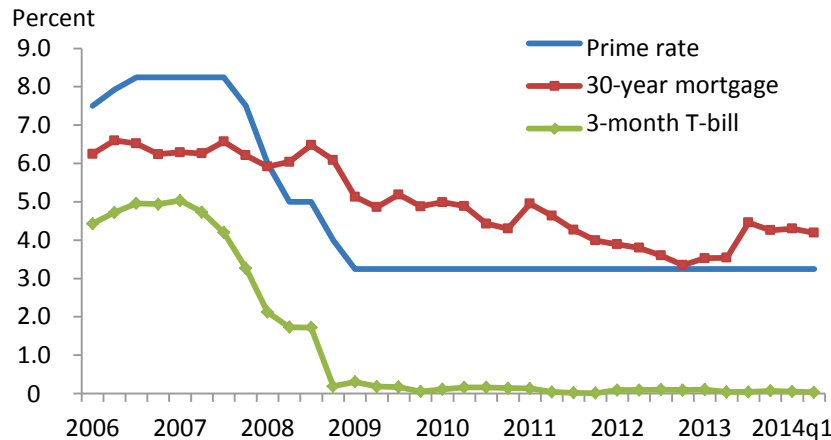
Small business loans remained constant from the last quarter of 2013 into the first quarter of 2014 (Figure 1). This was not the case for real gross domestic product (GDP), which contracted after experiencing 11 quarters of growth. GDP rebounded in the second quarter of 2014 (not shown). For the second quarter in a row (2013 Q4-2014 Q1), total small business loans¹ outstanding under \$1 million remained positive.

Loan Categories

Small business loans can be further divided into two subcategories: micro business loans, (under \$100,000), and macro business loans (\$100,001 to \$1 million). Both increased in fourth quarter 2013 and remained constant in first quarter 2014. Total small business commercial and industrial (C&I) loans stayed positive during the first quarter of 2014. Commercial real estate loans (CRE) continued to trend downward at a lesser rate than in previous quarters.

¹ Nonfarm commercial loans also known as commercial industrial loans (C&I), and nonresidential loans also known as commercial real estate loans (CRE) make up small business loans.

Figure 2. Interest Rates Trending Low and Flat Since the Recession



Source: Federal Reserve Board, H.15.

Financing Conditions

Financial market conditions continued to improve and remained supportive of economic growth, thus improving the availability of credit. Interest rates continued to be relatively low compared to historical norms (Figure 2). The prime rate, the rate on which most small business loans with adjustable rate provisions are based, has stayed constant since 2009, and tends to track with the Treasury bill rate. Rising equity prices along with healthier labor and housing market conditions continued to improve consumer borrowing conditions.

According to the Senior Loan Officer Opinion Survey, bankers slightly eased their lending standards and policies to all firms² as the credit quality of small firms improved (Figure 3). On net, bankers reported positive demand for both C&I and CRE loans (Figure 4). The Small Business Lending Index also indicates small business loan approval rates have been on the rise for both small banks and lenders with assets of \$10 billion or more over the past year.³

Mixed Results

² The Federal Reserve Board's Senior Loan Officer Survey

³ Biz2Credit Small Business Lending Index,

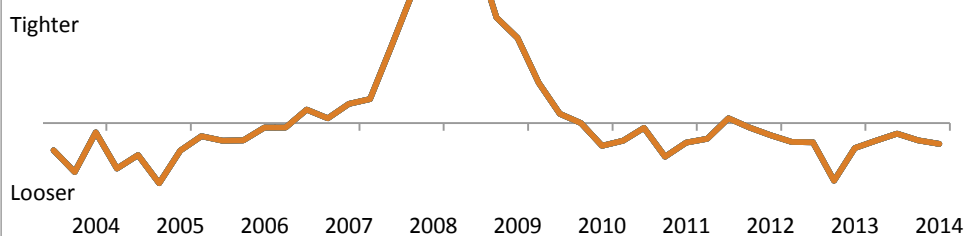
<http://www.biz2credit.com/small-business-lending-index/may-2014.html>

Even though market conditions remained strong, two small business indices, which measure consumer confidence, yielded mixed results. According to the Wells Fargo Small Business Index, small business owners are optimistic about the future as they expect less difficulty in obtaining credit and expect to increase their capital spending. On the other hand, the NFIB Index of Small Business Optimism showed that small businesses were less confident about the future.

Lender Activity

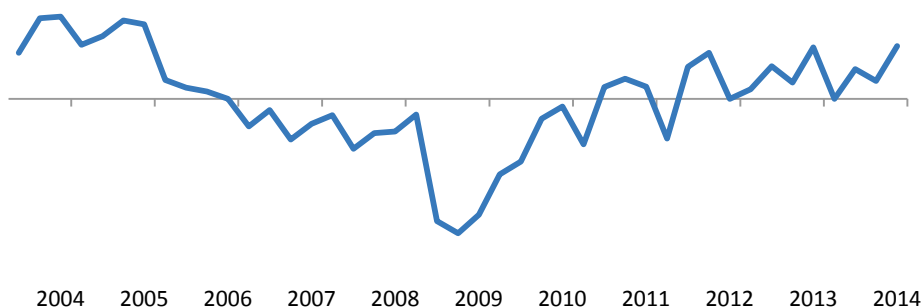
All suppliers with assets exceeding \$1 billion experienced increased activity, which helped offset declines experienced by lenders with assets under \$1 billion. Suppliers with assets of \$1 billion or more represented 70.2 percent of the dollar volume of all small business loans outstanding during this period. The largest dollar increase in small business loans outstanding was from lenders in the \$10 billion to \$49.9 billion asset size range (\$3.6 billion with a 6.1 percent change increase relative to the previous quarter).

Figure 3. Small Business Loan Standards Tightened Significantly During the Recession Then Loosened in Recovery



Source: Federal Reserve Senior Loan Officer Survey, July 2014.

Figure 4. Demand for Small Business Loans Weakened Significantly During the Recession, Slowly Strengthening Thereafter



Source: Federal Reserve Senior Loan Officer Survey, July 2014.